RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Sept. 2, 1992 **LETTER 1103**

Aug. 21 DJIA 3254.10; PTI 3535; A-D Ratio -9.66
Aug. 28 DJIA 3267.61; PTI 3542; A-D Ratio -9.88
Dow Yield: 3.16%; Dow Price/Earnings: 56.6
Dow 200-day MA: 3245; Dow 30-day MA: 3334
Dow Times Book Value: 2.51; PTI 89-day MA: 3509
Percentage of Undervalued Blue-chips: 10%

THE PICTURE: I can't remember when I've been so disgusted by a presidential race. The dollar's been falling apart, the recession lingers on, unemployment is 7.7% (10.5% according to *Sindlinger*, who I happen to believe), bankruptcies are booming, the federal deficit is careening through the roof -- and all the while Bush is running around preaching about "family values" and boasting about Desert Storm and how he won the Cold War. As for Bush's vague "plan" to lower taxes and reduce the deficit, the markets have already dismissed these ideas as unworkable and simply pre-election blathering.

When a nation is running deficits of $425 billion a year during a recession, you're talking about a very sick situation, and admittedly, there's no easy or painless way out. But c'mon, one of the two presidential candidates should at least be addressing the problems. They are not.

If Clinton wins, reasons Wall Street, spending will rise, taxes will go up, inflation will heat up, and the dollar will continue to tank. If Bush wins, thinks Wall Street, the economy will remain dead in the water, the Fed will push interest rates even lower, Congress will fight Bush's every move, and the dollar will continue to head south.

So who or what do you vote for at this strange and crazy juncture in American history? Damned if I know. Studying both candidates I decided that the best thing for us to do is just try to save our own financial skins. So I'll hold my vote in abeyance, and turn to the markets. What I've done is pile into foreign hard-currencies (of course, for months I've been urging my subscribers to do the same thing). Figuring out the markets is tough, but figuring out what Bush and Clinton are doing (or intend to do) is a lot tougher.

THE MARKETS: The very big picture? I think we're seeing the early part of a global bear market, and I think the operative phrase is "world deflation." The single major holdout is the US stock market. How long can our market hold out? Why guess -- just keep your eyes on the Primary Trend Index (PTI).

US MARKET: The primary trend of the market is always either bullish or bearish. But there are times when the trend becomes "indecisive" for weeks or months on end, and at such times no one can be sure just which way the main trend is pointing.

The Dow Theory solves that problem by simply stating that the trend continues -- until proved otherwise. So until there is a definite Dow Theory reversal (bear) signal, it's that last confirmed trend that we stand by.

This market was last confirmed as bullish, and that's the way I've continued to designate it. Let me put it another way -- if a bear market is now underway, I can't prove it with my studies.

I've stated that if **BOTH** Averages break their April 8 lows a primary bear market would be signaled. The D-J Transportation Average has already violated its April 8 low, but the D-J Industrial Average has not confirmed. And as I've so often said, "Half a bear signal is no better than none."

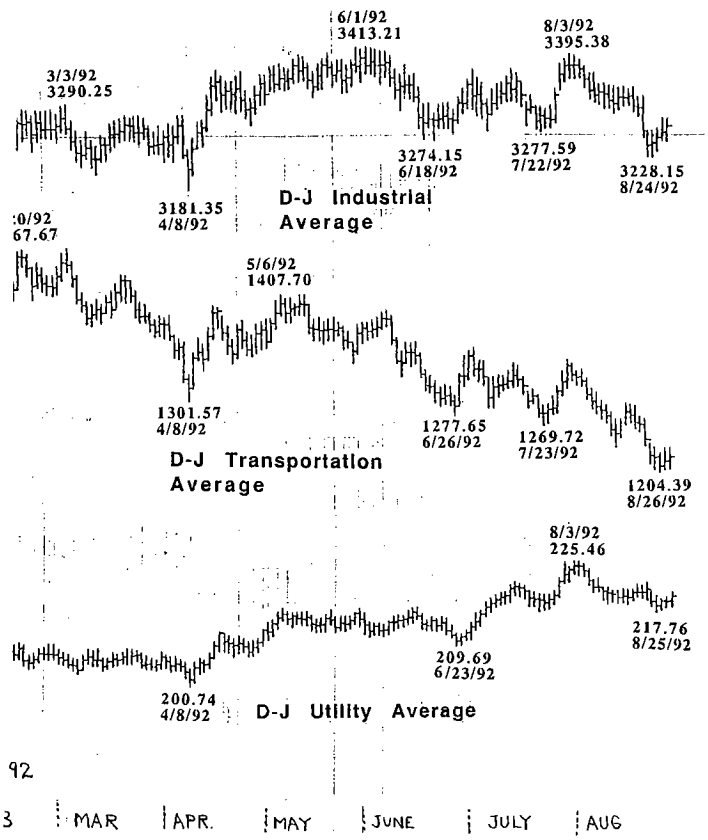
A downside confirmation (signaling a bear market) would require that the Dow break below **3181.35,** the April 8 low. As of this writing, despite a veritable parade of bearish news, the amazing "teflon" Dow has resisted violating the April 8 low.

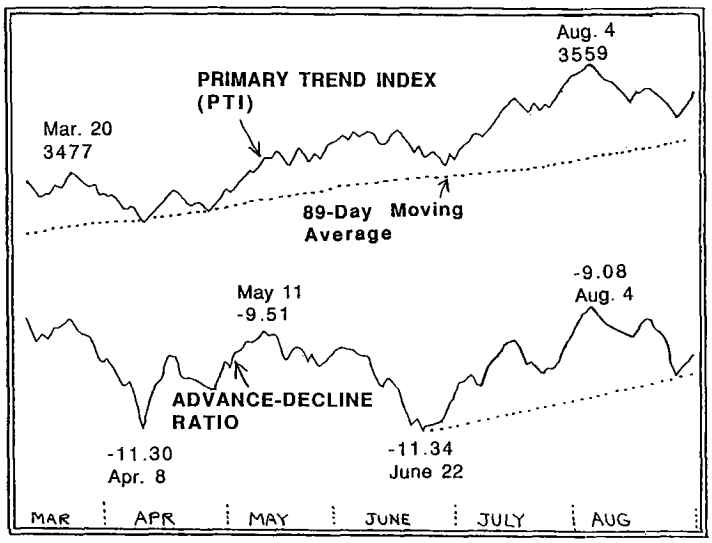
It is strange, however -- the 3181.35 level seems to act like a magnet for the Dow. One week the Dow appears to pull away from 3181.35, but then a week or two later the Dow seems drawn back towards 3181.35. It's almost as if the Dow was a moth being drawn to a flame.

So there we have it -- it's an indecisive market, a market flirting with a bear signal, but a market that nevertheless is steadfastly resisting the bear. The bulls pooh-pooh the bear market thesis. They claim that if it was a bear market the Dow would have collapsed weeks ago along with the swooning dollar and the torrents of bad news.

The bears say that the market always does what it's supposed to -- but never when. Just give it time, say the pessimists, and a primary bear market will be signaled.

In the meantime, my **Primary Trend Index** has formed a "head-and-shoulders" top pattern (see page 2 chart). But the PTI has not moved into its bearish mode, since it's still holding above its 89-





day moving average. For a bear trend to be signaled, I require that the PTI break decisively BELOW its moving average and then head down from there. So far, that has not happened.

Other observations: The Dow has fallen below its 200-day moving average (the MA stands at 3245). This is a bearish development. It means that buyers are currently willing to pay less for the Dow than they have, on average, over the last 200 days.

The D-J Utility Average has formed a head-and-shoulders top pattern (see page 1 chart). I take this as a negative development.

As stated in the last Letter, my bond work (based on the McClellan Index and the daily advances and declines on the New York Exchange Bonds) has turned bearish.

Finally, the Mutual Fund Index (from *Investor's Business Daily)*, having rallied from mid-June to early August, has again turned bearish. The Index is now below its 50-day moving average, and the 50-day MA is in turn below the 200-day MA. The average mutual fund is now showing a loss for 1992, a bearish situation.

Conclusion: As the saying goes, "The situation is fluid." But let us not kid ourselves, the overall market picture is hardly inspiring. If there's a single number we should be concentrating on, it's the **3181.35** level of the Dow. That's got to hold.

THE BATTLE: Currently, the major battle going in the markets is the dollar vs. the hard currencies and more specifically the mark. Americans may not be fully aware of it because a slumping dollar only affects them indirectly, but on August 21 the dollar broke to new all-time lows. My guess all along has been that the Fed and the administration have been perfectly willing to let the dollar sink (a lower dollar helps US exports), but there's one stipulation -- the dollar must sink in an orderly fashion.

As the dollar slides, traders continually test the low side. Their main fear -- central banks (the central banks hold billions of dollars as reserves) will intervene, moving in to buy dollars in order to protect their own dollar holdings as well as their own export markets. In my opinion, only the fear of massive central bank intervention has prevented an all-out panic-run on the dollar. So far, instead of a total collapse, what we've seen is a steady, persistent, "orderly decline" in the dollar.

The dollar has been falling for two reasons. First, it has fallen because it's no longer a store of value. The US' policy of systematic inflation has soured the world on holding dollars as a store of value. Today the once "almighty dollar" is simply a medium of exchange. Nobody in his right mind would buy dollars with the thought that the dollar will retain its purchasing power in years to come.

Secondly, dollar deposits pay only slightly better than 3% whereas the dollar's major competitor, the D-mark, pays better than 9%. To any international investor, that 6% yield spread in favor of the D-mark is almost irresistible. Why hold dollars when you can make 6% more holding D-marks? It's an argument that's hard to beat.

But most of Europe is now in recession, and the European nations have a problem -- their currencies (by agreement) must fluctuate within the D-mark band. In order to keep their currencies within the band, European nations also have to keep their interest rates high (they may even boost their interest rates if their currencies fall below the lower limits of the band).

Result: Europe and the Anglo-Saxon nations (US, Canada, Australia, New Zealand) are waiting and hoping that the Germans will cut their interest rates. Two weeks ago a director of the Bundesbank (the German central bank) announced that the conditions for a German rate cut are 3.5% to 5.5% growth in the German money supply with an inflation rate of less than 3%. The latest figures show the German money supply growing at an 8.7% rate while retail prices in Germany rose (July) at a 3.3% rate. Thus neither condition for a German drop in rates exists.

As I see it, the dollar is in a major bear market. True, the dollar is now oversold, but in bear markets an item can stay oversold for months at a time. Also true, on a purchasing power parity basis, the dollar is very underpriced. But the interest rate differential in favor of the D-mark is huge, and international money has been going for the higher yield, regardless of purchasing power parity.

Question: Russell, why are you writing so much about the dollar. Aren't you overdoing it a bit?

Answer: I've been writing a lot about the dollar because the dollar's plight is, in my opinion, the key to what's happening in the markets at this time.

Remember, the dollar is not just another currency. The dollar is the world's reserve currency. Every nation counts its reserves in terms of foreign currencies and gold. The foreign currency these nations hold, to a very large extent, is the dollar. Furthermore, nations pay the Arabs for their oil in dollars, most world trade is in dollars, many nations peg their own currencies to the dollar. What happens to the dollar affects every facet of world business and commerce.

Question: What happens if the dollar just keeps declining or if the dollar decline accelerates?

Answer: If the dollar decline accelerates I believe that at some point the US would be forced to defend its currency, and I mean defend it fundamentally. To do that the US would have to (1) raise interest rates and (2) reign in the supply of dollars. Both processes would intensify the current, ongoing US recession. Put it this way -- the last thing the current stagnant US economy needs is higher interest rates and a declining money supply.

Question: How is it that the Germans have accepted high interest rates, even while their economy is being squeezed?

Answer: The German economy (and all German savings) were wiped out in the great inflation that followed WWI. That incredible financial catastrophe imbued Germans with a terrible fear of inflation (it also paved the way for the rise of Hitler). The Germans will suffer through deflation, but they will never accept inflation. They may complain about high interest rates and sliding business, but Germans will willingly accept the tough discipline of the Bundesbank.

And maybe most important of all, the Germans are extremely proud of "the mighty Deutschemark." The D-mark is the symbol of German might in the modern post-war era, it's the symbol of German leadership in the new Europe. So if the Bundesbank insists on high interest rates to stifle inflation and protect the mark, the average German shrugs and says, "So be it."

INVESTMENT POSITION: It's a bull market until proved otherwise, and no, we don't have that "otherwise" proof yet. Therefore, our battered bull stays in the box.

My friend, David Fuller, writing from London, starts his latest report, *"The one and only global bull market is in government bonds. German bunds are completing this year's consolidation and will lead the next advance in European bonds, which have considerable upside potential."* (FullerMoney, 7 Swallow St., London WIR 7HD). I agree with David.

I've been saying that government debt denominated in foreign currencies is my investment of choice, and more specifically the Benham European Government Bond Fund.I gather a large number of my subscribers bought into this fund, but now I'm getting calls from people who wnat to know if they should still get into the fund. My answer is that I don't know. The fundamentals militating against the dollar have not changed, but the problem is that the dollar has gone a long way on the downside, and (obviously) the Euro currencies have advanced a long way to the upside.

I first recommended the Benham Fund back in May when the price was 10.23. On August 25 the fund hit a high of 11.36, up 11.04%. Considering that the fund pays over 8% in interest, it turned out to be a pretty good investment, at least it did for me since I took a very large position in the fund.

What happens next? It looks like the dollar may rest here a while or even rally. It's oversold and overdue, but of course the dollar's been oversold for months, and in a bear market (which the dollar is in) an item can remain oversold for months on end (remember the stock market during 1973-74?).

The Hong Kong market appears to have topped out (along with the rest of the world's markets). To hold our Hong Kong stocks or not -- that's the question. I'll probably hold mine a while longer, but HK has been a disappointment. Well, you just can't win 'em all.

Almost every stock market in the world has been heading down. Most individual stocks in the US are now well off their highs, but the major US averages are still holding up. It's a unique situation.

If we do get a bear signal, don't think you can ride through it unscathed. The following is from *Professional Timing Service,* (PO Box 7483, Missoula, MT 59807). "From 1969 to 1974 the NYSE fell by 74%. That means every $10,000 that 'buy-and-holders' invested in the late '60s (when everyone was in love with one-decision stocks, mutual funds and buy and hold) fell to $2,600. Yes, those who held on recovered their money, but it took years and years. It's no wonder. Holding through the 1973-74 bear market required that they make 385% on the $2,600 -- just to get even."

Russell comment: Buy and hold is a great philosophy during a bull market. But when a big bear market comes along, buy and hold becomes a disaster. That, by the way, is why it's so critical to know the direction of the primary trend. Remember -- a bull market bails out most mistakes. A bear market turns most investments into mistakes.

LOOKING AHEAD: There are two ways of looking at what's happening to the US and its finances. One way to look at it is that it's simply a fascinating, unfolding financial story.

The other way is that it's a gathering tragedy, a morality play acted out by an uninformed populace and a government of fools.

Here's my view. As I write this the US government is spending money at its fastest rate in history. Consider this: the current gross national debt of the US is $4,024 trillion. Exactly one year ago the national debt was $3,601 trillion. That means that the federal debt has increased by an amount of $423 billion over the last year. This is at the rate of $8.14 billion a week or at the staggering, surreal rate of $1.162 billion per day -- every day, 365 days a year.

The fact is that federal finances are totally, unbelievably out-of-control. Furthermore, raising taxes won't solve the problem. The facts are depressing. For every dollar of new taxes Congress takes in, it spends $1.78. What we're seeing is the financial equivalent of total insanity.

The interest on the US federal debt is now pushing $300 billion. At the current rate the interest costs will rise to $600 billion by the end of the decade. In eight years the interest payments alone on the federal debt will exceed the amount of all the income taxes collected from ALL Americans.

Here's another way of looking at it. At present 61 cents out of every dollar you pay in taxes goes to cover the interest on the national debt. But by the end of the century, in just eight more years, the interest on federal debt will eat up everything every American pays in taxes. The federal debt is growing and compounding and eating this nation up alive.

Last year the US' gross domestic product grew by $155 billion, a slight increase. But at the same time the federal deficit grew by over $400 billion, far more than the increase in GDP. This year we will get a repeat performance.

The US economy is now $3.1 billion larger than it was in 1981. This is roughly equal to the increase in the federal debt since 1981. The inescapable conclusion is that the US has BORROWED ITS GROWTH for the last 10 years.

Furthermore, growth during the last 10 years averaged 2.6% a year, lowest since the depression years of the '30s. And the picture for the '90s looks no better.

With the government's need for money eating up almost all domestic savings, the US economy has slid into a condition somewhere between chronic stagnation and recession. The sources of capital and savings are disappearing. Japan and Europe, which were once major sources of capital for the US (in that they bought our debt), are now having major trouble of their own. Japan, in fact, has recently been a seller of US debt.

So the question economists are asking is -- "Looking ahead, where will the growth come from?" And it's a good question. Growth won't come from the military, that's certain. It won't come from the consumer, who is still deeply in debt and strapped for cash. It won't come from manufacturing, a sector that has been declining (it now accounts for 14% of all jobs, down from 22% in the 1970s). And it won't come from the white collar professional class (they've been laid off by the tens of thousands over the past few years).

There's a battle going on, a huge battle. The Fed decided that it wanted growth without inflation. Consequently, it puts the squeeze on the money supply. M-2, the money supply most closely associated with the growth of the economy, has not grown (in constant dollars) since 1989.

But events didn't work out the way the Fed planned. In 1989 the US sank into recession, and it has been in recession ever since. In a panic, and under severe pressure from the administration and Congress, the politically-sensitive Fed has addressed the situation by dropping interest rates to their lowest level in 30 years. This action, the Fed reasoned, would turn the economy around.

The belated Fed action failed to do the job. Today the public is strapped for money; people are still suffering from the huge borrowing binge of the 1980s. On the corporate level the same is true. Today corporate efforts go to paying off debt, to trying to get liquid, and in many cases the efforts simply amount to struggles to survive. Survival in many cases means laying off employees, and this too serves as a warning to consumers to conserve cash rather than to spend.

In the meantime, Congress has voted an almost unsustainable level of entitlements for Americans. These entitlements are paid

increasingly out of Social Security. The SS tax has increased to the point where it is taking up to 15% of lower and middle class salaries. This has led to the so-called "generational struggle," a growing problem in which older Americans are retiring on the backs of younger Americans. And the worst of it is that the Social Security funds have already been spent by the government. So instead of a giant store of funds, the Social Security coffers are left with nothing but an ocean of government IOUs (this has led some critics to label Social Security as "the biggest Ponzi scheme in history").

Given all the above, how is the US to grow? How is it to increase the money supply? How is the government to handle the problem of "no savings in America"? There is one way -- government engineered inflation. In this process the Fed buys bonds and creates money by a process known as monetization. And it institutes huge spending programs and pays for them with borrowed money.

As I see it, the writing is on the wall. The nation must accept "the big squeeze," lengthy economic contraction and deflation -- or it must accept Fed monetization of the debt and a further debasing of the dollar.

Congress has already voted down the widely-discussed Constitutional amendment for a balanced budget. Our politicians in Washington had no thought of submitting the nation (and their own jobs) to the pain of a huge contraction in the budget plus higher taxes.

From what I see, there will be no meaningful lowering of the budget deficit by either candidate. As the financial vice continues to close, the choice will be deflation and a continuing squeeze -- or inflation. It's as simple as that, and when the chips are down the US always chooses inflation.

When our overseas "friends" see that this is the American way (and they are undoubtedly seeing it now) they will forsake the dollar. And the dollar will head down again in earnest.

The D-mark is becoming the currency of choice. My guess is that the world's central banks will increasingly opt for D-mark reserves while moving to some extent out of dollars. Today the dollar is the world's reserve currency, but you can't have a reserve currency that steadily loses value.

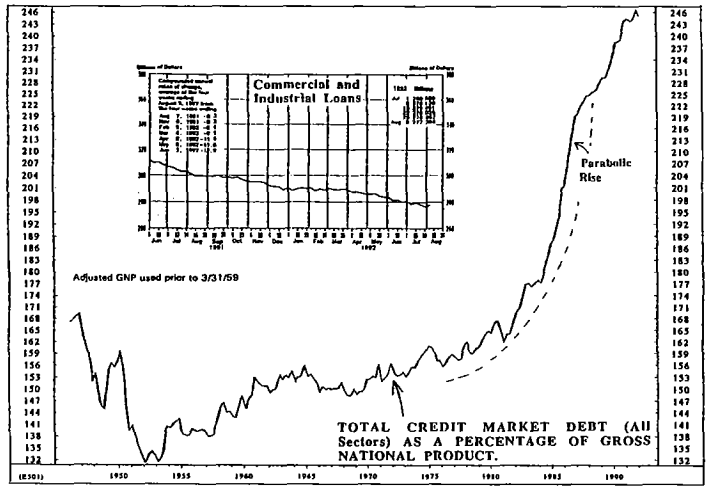
So all of the above constitutes the big picture as I see it. It's the picture no politician will deal with. It's the scenario that no politician wants to tell the American people about. In the end, courage and honesty could have saved the day.

It seems ironic to me that in the 1930s the stock market collapsed, but at the same time no one doubted the strength and integrity of the dollar. The only problem was that nobody had any dollars.

Here in the 1990s our market has held together, but it's the dollar that has collapsed. However, the story, the whole story, has not yet been told. And what really bothers me is the observation that as a nation's currency goes, so goes the nation.

Aside from the federal deficits, there's another item that particularly bothers me. It's the possibility (or probability) of a credit collapse. This chart, courtesy of *Ned Davis Research,* shows the potential danger in the situation. Here we see total market debt as a percentage of Gross Domestic Product. The ratio is in an unsustainable parabolic rise, and as my veteran readers know, parabolas have a habit of collapsing.

If this ratio starts coming down (and it already looks toppy), the nation will go into a full-fledged depressionary collapse. A plunging ratio will mean that everyone is trying to get out from under. Debt will be a dirty word. It will mean that there will be a mad rush for liquidity, for solvency. The insert chart (from the *St. Louis Fed)* shows the steady decline in Commercial and Industrial Loans. Since May 27 these loans have dropped at the whopping


Commercial and Industrial Loans
Parabolic Rise
Adjusted GNP used prior to 3/31/59
TOTAL CREDIT MARKET DEBT (All Sectors) AS A PERCENTAGE OF GROSS NATIONAL PRODUCT.

annualized compounded rate of 12.9%. That at least hints that a credit collapse could be starting.

NOTES & QUOTES: Well, I listened to a good deal of the Republican convention and I've been listening to them ever since. If these guys can get re-elected on their "family values" shtick plus attacking Clinton and Hillary, I'll take my hat off to them. I think they're barking up the wrong tree. The fact is that 53% of all US women over 15 are in the work force and half the marriages in America end up in divorce. As far as the attacks and innuendos regarding Hillary Clinton, they're stupid and misdirected -- and I think they'll backfire.

I don't know how much yardage Bush thinks he can get from "Desert Storm" but he sure keeps trying. Bush has elected to take full credit for the fall of Communism, which bothers me just a little. He affects the part of the great war and peace savior (he even talks about his heroics during World War II). As for addressing the real problems of America, I've heard very little. His tax cutting plans were vague as were his promises to halt or cut spending. One thing did hit me -- with the viciousness of this whole campaign on the part of both sides, if Bush does get re-elected he's going to have a hell of a time getting any cooperation from Congress.

I got a lot of flack from a statement I made in a recent Letter to the effect that I would prefer Bush over Clinton because Bush "wouldn't do anything" and Clinton (with his tax the rich and spend plans) will just make matters worse. This from *USA Today* (Aug. 15). "In an interview with *USA Today,* Clinton was asked whether the middle class would have to sacrifice anything -- taxes or benefit -- to plug the nation's yawning federal budget deficit. Clinton's answer: No. Tax the rich and increase investment. Asked to name any federal programs he'd eliminate, not just keep and trim, Clinton could only cite one: a $20 million a year subsidy to beekeepers." Russell comment: The truth: I'm disgusted with both candidates, but Clinton is running a more intelligent and certainly more decent campaign, and I think the American public knows it.

* *

There is over one trillion dollars of municipal bond debt outstanding, and they pay out $70 billion in tax-free income. Last April Henry Waxman (D-Calif) and House Majority Leader Richard Gephardt presented a bill to tax muni interest. The tax they want is 15% and there would be no grandfather clause. The vote on this is expected in January. A vote for the Democrats, anyone?

* *

How important is housing to the economy? Very. The sale of an existing home generates an average of $8,000 in fees and other expenses. Now get this -- realtors collect nearly $23 billion a year in commissions on sales of homes. Furthermore, closing costs, points, origination fees, appraisals provide another $7.6 billion. Construction of homes generates $2.3 billion in wages for 100,000 workers. Finally, homeowners last year spent $47 billion on remodeling. So it's obvious that housing constitutes a huge part of the nation's Gross Domestic Product.

Russell comment: Here's another thought: mortgage payments comprise almost 70% of the typical family's debt burden. Now

when I was a boy (my wife, Faye, hates this speech) people detested mortgages, and everyone's dream was to own a home "free and clear." Today, a young couple gets married, and the first thing they do is buy a home and get heavily into debt. That means that they never have an opportunity to save -- they start behind the debt eight-ball. Instead of saving, they pay out.

I've shown in past letters the amazing power of compounding savings through time. But if you start life deeply in debt, you are never going to be able to save. The one thing every young man or woman has is -- time on their side. My suggestion for every young American -- rent rather than buy, save while you're young, compound your savings and buy a house for cash when you're loaded with money. It can be done. If you don't believe it, study any compounding table. Which reminds me, when people ask me, "What's the best investment book to buy for my son or daughter?" I tell them, "Go to your local book store and buy a book on compounding interest tables. If you fully understand what's in that book, you're on your way to becoming wealthy." Of course, very few ever take my advice.

* *

According to Jack Lessinger writing in the *Christian Science Monitor,* "The capital gains tax, though painful for individual home-sellers whose house values have soared, may be preventing the collapse of the urban real estate market." Lessinger believes that if the capital gains tax was reduced, there would be a veritable flood of home sales and a rush out of the cities and out of suburbia into the country (where ostensibly, "life is a lot safer").

* *

This from my friends at *Market Logic* down in Ft. Lauderdale, FL: "As a 'sponsor' of the 1992 Olympics, the US Postal Service sent dozens of executives on all-expense paid junkets to Barcelona. The execs found the cuisine at their hotel wanting, so the Postal Service flew two chefs to Spain to prepare their food." Russell comment: Do we have to take these outrages? Is anyone accountable in these government offices? Is honesty outmoded? Does anyone feel shame in today's new world?

* *

In the investment business there's danger in following anyone blindly (including me). Take the case of investment genius, Warren Buffet, CEO of Berkshire Hathaway. Buffet paid $358 million for convertible bonds in USAir (equal to 12% of the common). Last year Buffet wrote his investment down to $232 million, a 35% loss (it's probably worth less now). Yep, even Buffet makes expensive mistakes.

Speaking of BKR, I bought Berkshire Hathaway at $250 in the late-1960s. I sold it a few years later for $550, proudly doubling my money. Then I watched it go to a high of $9,950. It was a classic case of what I call losing while winning. Ah yes, if only, if, if, if.

* *

The deflation in real estate prices has become worldwide. In Britain one million homes are now worth less than their mortgages. Home prices in southeast England have dropped 27% since late-1988. Home prices here in La Jolla have dropped anywhere from 10% to 40%. In all the years I've been here (since 1961) I've never seen this kind of drop.

Mark Holowesko, director of research at Templeton International notes, "The Japanese real estate market was the biggest financial bubble in the history of the world. At its peak, the market was probably valued at between $16 and $18 trillion. If it falls in half, that's a loss of $8 to $9 trillion, more than the value of every stock market in the world." Russell comment: The Japanese stock market bubble was built on the wild inflation in Japanese real estate values. The estimate is that the bear market in Japanese stocks has, so far, wiped out roughly $3 trillion in values. The decline in Japanese real estate is probably greater. The big question, I feel, is whether the deflation in Japan's real estate will continue. If it does, then their problems are just beginning.

* *

What were the great money-making stocks of the last 10 years? Mark IV Industries was the winner, gaining 9,186%. Home Depot was second at 8,154%, Mylan Labs third at 6,870%, Circuit City at 5,659%, Shaw Industries at 5,200%, Countryside Credit at 5,102%, the Gap at 4,733%. Did you hold any of these through all the corrections since 1982. No? I know I didn't.

What about the top Dow performers over the last 10 years? Coca Cola was first, up 1,375%, Merck second up 1,341% (I had Merck early but sold it too soon, still with a good profit), Philip Morris up 1,293% (yeah, I had this too, same story as Merck), Disney up 1,027%, Boeing up 664%, Woolworth up 611%, McDonald's up 415% (and you laughed at hamburgers), Exxon up 415%, Dupont up 413%, JP Morgan (our only AAA-rated bank) up 391%.

* *

A year or so ago I said that four great growth industries in America were pollution, corruption, debt and bankruptcies. For pollution maybe buy Browning Ferris, for corruption buy Sturm Ruger, the only pure gun play (we need to defend ourselves against the bad guys). For debt buy a company that makes money on debt, maybe a bank like JP Morgan. For bankruptcies I dunno, maybe become a bankruptcy lawyer (although Faye, tells me that these fellows often have trouble collecting their fees).

At any rate, events are beginning to agree with me. The facts: the number of bankruptcy filings among individuals and businesses has tripled in the last decade to 943,987 filings in 1991. It is estimated that among individuals alone the number of filings has doubled in the last five years. Bankruptcies in 12 states zoomed off the charts led by New Hampshire up 680% and Massachusetts up 543%.

Speaking of debt, Uncle Sam is now only $240 billion away from the embarrassing task of having to raise the debt ceiling again. The statutory borrowing limit is now $4.145 trillion. You can say good-bye to that limit soon. Every time the Treasury holds an auction, the "thin cushion" gets thinner. By January, it's almost certain the ceiling will have to be raised again -- for the umpteenth time. Actually, the House has already passed a measure that would boost the upside limit to $4,461 trillion. Hello, $5 trillion, we see you coming.

* *

Monster Sale: The Resolution Trust Corp. is planning its biggest auction so far, and I mean BIG. It will be $500 billion in bad loans scattered throughout 45 states. The RTC has grouped the loans into 200 packages ranging from $57,000 to $21 million. The auction will take place Sept. 9 in Century City, CA. Apartment loans will go for around 30 to 60 cents on the dollar, commercial real estate loans will go for around 20 to 50 cents on the dollar, while business loans will go for 10 to 50 cents on the dollar. Someone who buys a package of bad loans can try to collect on past-due bills, while on real estate loans you might profit from the sale of collateral. What you're doing is gambling that the collateral is there. The whole point, says the RTC, is that a bad loan is not necessarily worthless. Russell comment: Sounds a lot better than Vegas to me.

* *

Famed author Arthur Hailey (visiting in Nova Scotia) sent me a clipping from a Canadian paper which states that national unemployment in Canada is now 11.6% but the jobless rates for 15 to 24 year olds is at a whopping 19.1%. Says the paper, "Plant closings continue unabated, the airline and railway industries face massive layoffs and much of Newfoundland's cod fishery has been closed."

* *

New York loves to stick it to California, and with California mired in recession New York is having fun. But not too much fun. According to the August 16 *NY Times*, "For the first time since the economic crisis of the 1970s, the number of New Yorkers on welfare last month rose above one million -- almost one out of every seven residents." Mmm, so much for Fun City.

* *

The new force in the world of computer chips is Korea, whose chip industry is growing at the rate of 35% a year. The vicious competition from Korea is hurting the Japanese chip industry, preventing the Japanese from getting a full return on the billions of dollars in investments they have made in semiconductor production in the past three years. If it were not for Korea, the Japanese would almost completely control the world chip industry. IBM once encouraged the Korean chip industry as a buffer against Japan.

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Congress exempts itself from many of federal laws that you and I and all the rest of us poor slobs have to live with. I think it's a disgrace, and I again urge you to vote incumbents out. Here are a few of the laws Congress exempts itself from: (1) The Social Security Act, (2) The National Labor Relations Act, (3) The minimum wage laws, (4) The Civil Rights Act of 1964, (5) The Freedom of Information Act, (6) The Fair Labor Standards Act, (7) The Age Discrimination Act, (8) Occupational safety and health laws, (9) Equal Employment laws, (10) The Ethics in Government Act, (11) The Privacy Act, (12) The Civil Rights Restoration Act, (13) Sexual harassment statutes.

As I said, it's an outrage. And on top of it all, Congress is charging us $2.7 billion to run itself. Vote 'em out. Even if you like your local representatives, vote 'em out as a protest. If you don't, you deserve what you're getting. And believe me, you're not getting much.

* *

Faye has been doing pro bono (free) work for AIDS victims. As a lawyer she has been advising AIDs people, and she tells me it is heart-wrenching. Most of the people who come for advice are very frightened, the most frequent questions are about making out wills or about selling their life insurance policies either back to the insurance companies at discounted prices or to private investors. Over $100 million in insurance policies have been bought from terminally ill patients, offering them anywhere from 50% to 90% of a policy's face value.

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The "Wild West" is still on the wild side. Following the LA riots, San Diego County residents (in May) bought 2,880 handguns, up 33% from a year ago. Statewide, California gun sales rose 40% in May to 43,000. Let me put it this way -- Californians are well armed. In California any non-felon can buy a pistol, but there's a 15-day waiting period while the FBI checks your background.

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If you've ever been to Las Vegas you've heard of Wayne Newton, "Mr. Las Vegas." The singing entertainer makes $5 million a year. But a few weeks ago Wayne filed for bankruptcy. How could a man making $5 million a year go broke? Well, Wayne was a lousy businessman and a terrific spender. Aside from many failed investments, Wayne has a 52-acre ranch with 200 Arabian horses, a helicopter, more than a dozen luxury cars including four Rolls, a Stutz, a Bentley and a Duesenberg, a Las Vegas mansion called Tara plus all kinds of exotic birds including penguins that are kept cool by outdoor air-conditioning. The talk is that suppliers were only willing to provide feed for Wayne's horses on a cash basis. Says the still active Newton, "If we can just hold my creditors off for a while, I can pay them back every cent I owe."

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Money magazine has come out with its "300 Best Places to Live." They base their study on nine criteria -- health, crime, economy, weather, housing, education, transit, leisure, arts. Top rated places are (1) Sioux Falls, SD, (2) Columbus, MO, (3) Austin, (4) Minneapolis/St. Paul, (5) Fargo, ND, (6) San Francisco, (7) Honolulu, (8) Provo/Orem, UT, (9) Gainesville, FL, (10) Madison, WI. Well, San Diego was 21st, NYC was 82nd. Weather is a BIG thing with me, so I'm married to San Diego, which has the best weather in the nation. But we also have high taxes and beaucoup crime. If you want to save money, yep, move to Sioux Falls, they have no state income tax nor local taxes although they do have a 7% sales tax. The study rates Sioux Falls tops for economy. Gainesville, FL, number 9, also has no state taxes and the weather's pretty good. Mmm, but Florida has those darn mosquitos.

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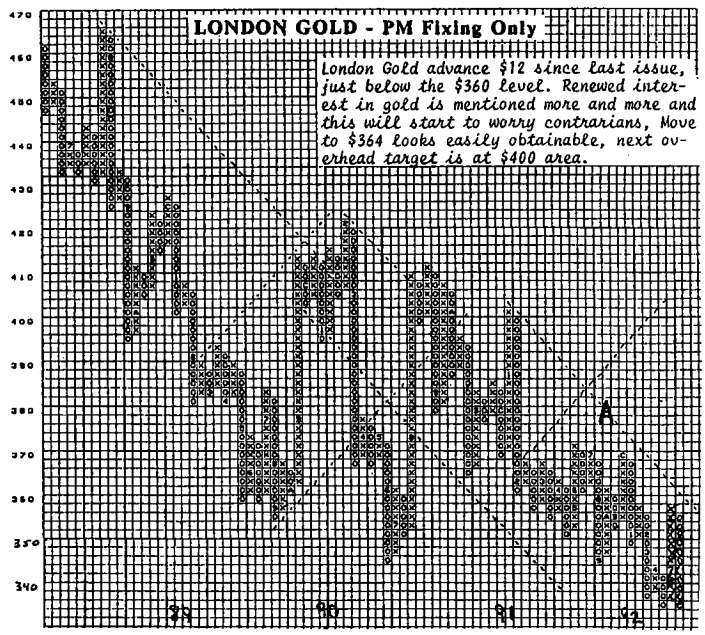
Los Angeles is turning into a slaughterhouse. There was a record 254 homicides in the city last month. And those are only the ones that were reported. Get in an argument today, and you can figure that if they don't sue you, they'll kill you. Welcome to the '90s.

GOLD: There's nothing more difficult than trying to identify a change in the primary trend. And I'm wondering whether the primary trend of gold is turning bullish. The point & figure chart (courtesy of *Chartcraft*, New Rochelle, NY) shows gold breaking down to the 332 box in April. This was followed by a rally back to the 352 box, and then a breakdown to the 332 box again. But since April gold has not made a new low. On August 24 gold bounced up 4 dollars in reaction to the dollar crisis.



In the meantime I've been studying the gold shares. And I've done something interesting. I've computed the short interest ratios in the leading NYSE gold shares. To do this you divide the total short interest for the month in each stock by the average daily volume for the month.

For instance, the short interest ratio for American Barrick is a whopping 9.13. This means that the number of shorts in ABX is equal to 9.13 days at its average daily volume. The higher the ratio, the more pressure on the shorts.

However, the ratio is most significant in a bull market. This is because a high ratio means that a large number of shorts are pitted AGAINST the primary bull trend.

At any rate, the exceptionally high short interest ratios in the golds have captured my attention. Here are the ratios for August: Amer. Barrick 9.13; Amax Gold 3.37; ASA 13.07; Battle Mountain 1.81; FMC Gold 1.99; Freeport McMoran 15.69; Homestake 3.02; Newmont Gold 4.80; Placer-Dome 1.41.

In other words, speculators are loaded with gold shorts. They're positioned for a collapse in gold stocks. If the primary trend of gold is turning bullish, these high short ratios will constitute an element of strength. I might add that towards the bottom of a bear market short ratios tend to be high (and gold has been in a bear market since 1980).

NEXT MAILING: Sept. 16, 1992

LATE NOTES: I'm aware that there's a lot of bearishness around today. Half the market letters I read are bearish. But so far, I don't see it in my work. I've been saying all along that the Dow has NOT confirmed the Transports through the April 8 lows, which negates the claim that "we're in a bear market." Nor has my PTI broken below its 89-day moving average. Here's a near-term consideration -- the Dow broke below both its June and July lows, but A-D ratio did not confirm. That's a significant and impressive downside non-confirmation. The market acts as if there's some major positive development hiding out there in the future. Everyone expects a big sell-off if Clinton gets elected. But I find it hard to believe that the market hasn't discounted a Clinton victory -- that possibility has to be built into the price structure. Could this be the coming surprise -- Clinton is elected and the market rallies? Fundamentals for the dollar continue bearish as federal debt continues to grow and grow . . . Meanwhile, the Japanese Nikkei is up over 4,000 points from its low as Japanese government announces it will spend $82 billion to boost the economy. Market momentum has turned up in Japan, so don't look for new lows there for months to come.